

PUBLIC DISCLOSURE

August 20, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

COLONIAL CO-OPERATIVE BANK

6 CITY HALL AVENUE
GARDNER , MA 01440

DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MA 02110

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of COLONIAL CO-OPERATIVE BANK prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"

The bank's CRA rating is based on five performance criteria which are evaluated within the bank's performance context. The bank's satisfactory rating is based on the following: (1) The net loan to deposit ratio has averaged 85.6 percent over the period examined. (2) The bank has made a substantial majority of loans within its assessment area; (3) The bank has achieved a reasonable distribution of lending among borrowers of different income levels; (4) The bank has also reasonably distributed its lending products throughout the census tracts of different income levels; and (5) The bank has regularly implemented fair lending policies and procedures. No discriminatory lending practices were noted. No CRA complaints have been received by the bank.

PERFORMANCE CONTEXT

Description of Institution

Colonial Co-operative Bank is a community financial institution incorporated as a Massachusetts co-operative bank in 1889. The present bank is the result of the merger of three different banks; the last merger taking place in 1995. Colonial Co-operative Bank operates its main office in downtown Gardner, Massachusetts with branch offices in the adjacent towns of Baldwinville (Templeton) and Winchendon. As of July 2000, all offices began offering 24-Hour ATM service with network access including Cirrus, Plus, MasterCard and VISA. The bank's ATM service is offered free of any surcharge.

As of June 30, 2001 the institution had total assets of \$62.9 million with total loans representing \$47.8 million or 76.0 percent of total assets. The table below depicts the composition of the bank's loan portfolio based on the FDIC Call Report of Condition.

Loan Portfolio as of June 30, 2001		
Type of Loans	\$'s (000's)	% of Total Loans
Construction & Land Development	319	0.7%
Residential Real Estate		
a. 1-4 Family Mortgages	38,247	80.0%
b. Home Equity Lines/Loans	1,541	3.2%
Multifamily	2,295	4.8%
Commercial Loans		
a. Commercial Real Estate.	2,506	5.2%
b. Commercial Loans	831	1.7%
Consumer Loans		
a. Credit Cards		0.0%
b. Loans to Individuals	2,043	4.4%
Other Loans		
Total	47,782	100.0%

Table 1: Source: FDIC Call Report of Condition, 6/30/01

As shown by the data in the table above, loans secured by residential real estate (1-4 family dwellings) represent the majority (83.2 %) of the bank's loan portfolio. Commercial real estate loans and commercial loans represent the second largest segment (6.9%) of the loan portfolio. Loans secured by multifamily dwellings (5 or more units) and consumer loans represent the remaining portfolio (4.8% and 4.4%, respectively).

Colonial Co-operative Bank is primarily a portfolio mortgage lender with some diversification in commercial loan and consumer lending areas. Colonial Co-operative Bank is a member of the Federal Home Loan Bank of Boston. The bank's ability to meet community credit needs remains strong based on its resources, size and product offerings.

Based on the aggregate 1999 Home Mortgage Disclosure Act (HMDA) data, Colonial Co-operative Bank ranked 2nd in market share for mortgage loan originations among all HMDA reporting lenders within its assessment area. In 1999, the top five mortgage lenders within the bank's defined assessment area were: (1) Gardner FrancoAmerican (GFA) Federal Credit Union (9.5% market share); (2) Colonial Co-operative Bank (6.3% market share); (3) Athol Savings Bank and Fidelity Co-operative Bank (4.5% market share, each); (4) First Eastern Mortgage Corporation (4.1% market share); and (5) Countrywide Home Loans (3.8% market share). These top five lenders held a 32.7 percent market share of all mortgage loan originations reported under the Home Mortgage Disclosure Act (HMDA). There were 213 HMDA reporting mortgage lenders active within the assessment area in 1999. The aggregate HMDA reporting lenders/competitors consisted of local and regionally based financial institutions and a broad variety of mortgage companies.

The most recent Community Reinvestment Act (CRA) evaluation conducted by the FDIC (Federal Deposit Insurance Corporation) as of May 24, 1999, assigned the bank a "Satisfactory" CRA rating. Likewise, the previous evaluation, conducted by the Division of Banks as of October 8, 1997 resulted in a "Satisfactory" CRA rating.

Description of Assessment Area

The Community Reinvestment Act (CRA) requires financial institutions to define an assessment area within which the bank will focus its lending efforts. The Division of Banks evaluates the institution's CRA performance based on the defined assessment area. Generally, assessment area(s) are expected to consist of Metropolitan Statistical Areas (MSAs) or contiguous political subdivisions such as counties, cities and towns. Colonial Co-operative Bank's assessment area is in conformance with the CRA regulation containing only whole geographies or census tracts.

Colonial Co-operative Bank defines its assessment area as the City of Gardner and the towns of Templeton and Winchendon. The assessment area is situated in northern Worcester County within the Fitchburg-Leominster, MA Metropolitan Statistical Area (MSA). The Fitchburg-Leominster, MA MSA median Family Household Income (FHI) was \$50,700 and \$53,100 for 1999 and 2000, respectively. The area median income FHI rose to \$57,200 in 2001.

Demographic and Economic Data

According to 1990 US Census Data, Colonial Co-operative Bank's assessment area has a total population of 35,368 individuals. The assessment area consists of 7 census

tracts. Based on 1990 area median FHI within the tract, census tracts are defined as; low-income (less than 50% of area median income), moderate-income (50-79% of area median FHI), middle income (80 –119% of area median FHI) or upper-income (120% or more of area median FHI). Of the census tracts comprising the assessment area, there are two moderate-income census tracts and five middle-income census tracts. The two moderate-income census tracts comprise downtown Gardner and its surrounding neighborhoods. There are no low and upper-income census tracts within the assessment area.

Table 2 below provides the distribution of the assessment area's households and housing units by census tract income level.

Housing Characteristics by Income Category of the Geography							
Geographic Income Category	Distribution by Percentage						Median Home Value
	Census Tracts	Households	Housing Units	Owner-Occupied	Rental-Occupied Units	Vacant Units	
Moderate	28.6	22.8	23.5	11.8	40.4	29.2	\$101,755
Middle	71.4	77.2	76.5	88.2	59.6	70.8	\$114,222
Total or Median	100.0	100.0	100.0	56.3	36.3	7.4	\$111,299

Table 2: Source: 1990 U.S. Census

The majority of households (77.2 %) reside within middle-income geographies. Within these middle-income tracts, low-income and moderate-income households comprised 23.0 percent and 15.0 percent, respectively of all households; while there were 8.7 percent of households residing below the poverty level. In comparison, within the moderate-income tracts, low-income and moderate-income households comprised 43.7 percent and 16.7 percent, respectively of all households. There were 16.0 percent of households residing below the poverty level within the moderate-income geographies.

Housing stock within the assessment area consists primarily of 1-4 family residential units (78.2 % of all housing units), the majority of which (56.3%) are owner-occupied. The median home value in the assessment area was \$111,299 based on 1990 U.S. Census data.

Table 2a provides median home prices in communities where the bank has offices. The Warren Information Services compiles these current home sale prices based on Registry of Deeds transactions.

	June 2000*	June 2001*
Gardner	\$104,000	\$139,000
Templeton	N/A	\$179,900
Winchendon	\$100,000	\$122,700

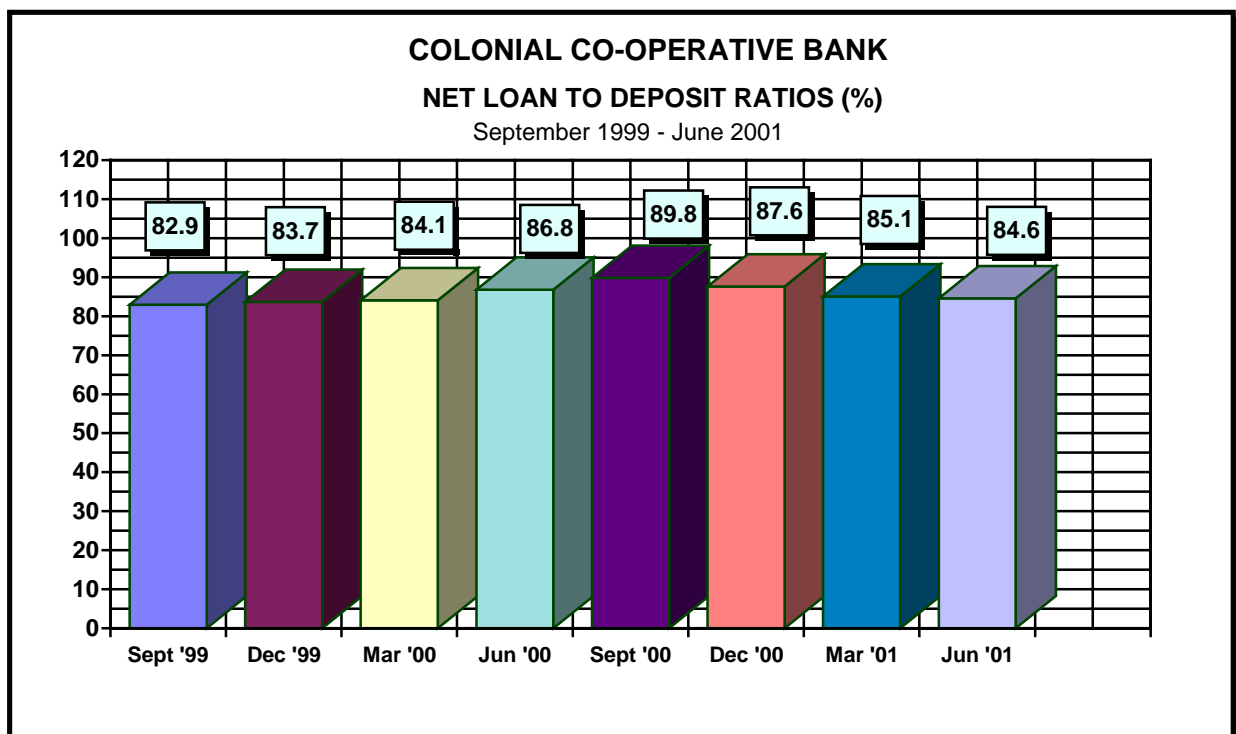
Table 2a: Source: Warren Information Services (Banker & Tradesman), year to date June 2000 & 2001.

Overall, the above figures reflect an increase in home prices for the year-to-date 2001 over the 2000 levels. The median price of a home in Gardner increased by \$35,000, while Winchendon experienced an increase of \$22,700 in its median home price. Templeton had no home sales for year-to-date June 2000, therefore no median home price was available for that time period. Gardner is the largest and most active housing market with 75 and 93 home sales in year-to-date June 2000 and 2001, respectively.

PERFORMANCE CRITERIA

1. LOAN TO DEPOSIT ANALYSIS

This criterion evaluates the level and trend of the bank's net loan-to-deposit ratio. The bank's average net loan-to-deposit ratio is 85.6 percent for the period September 30, 1999 through June 30, 2001. Colonial Co-operative Bank's performance is considered more than reasonable given community credit needs and the institution's lending capacity. The ratio analysis is based on data reported on the FDIC Call Reports. The following graph depicts the loan to deposit ratio level and trend for the quarters reviewed.



The ratio of net loans to deposits demonstrates an increasing trend through September 2000 and a slightly declining trend in the subsequent quarters shown above. Overall however, there was an upward trend due to the net loan growth of 9.3 percent for the period outpacing deposit growth of 6.8 percent. The positive trend indicates the bank's continued efforts to extend credit to its community.

The following table compares Colonial Co-operative Bank's net loan-to-deposit ratio to five other financial institutions situated within the assessment area.

INSTITUTION	* NET LOAN TO DEPOSIT RATIO
Fitchburg Savings Bank	95.6%
Fidelity Co-operative Bank	86.1%
Colonial Co-operative Bank	85.1%
Workers' Credit Union	73.9%
Athol Savings Bank	65.2%
GFA Federal Credit Union	46.3%

*Source: FDIC and NCUA Call Report data 3/31/01.

The institutions are listed by descending order of their net loan to deposit ratio as of March 31, 2001, which ranged from 95.6 percent to 46.3 percent. These community financial institutions varied in asset size from Workers' Credit Union with \$373.8 million in assets to Colonial Co-operative Bank with \$61.9 million in assets.

In conclusion, the bank's average net loan to deposit ratio of 85.6 percent is more than reasonable and exceeds the standards for satisfactory performance given the bank's capacity to lend, its growth in lending activity, and the credit needs of the assessment area.

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

The second performance criterion evaluates the bank's record of lending within its assessment area. Colonial Co-operative Bank's mortgage lending activity within its assessment area represents a substantial majority and consequently, exceeds the standards for satisfactory performance. The bank's Home Mortgage Disclosure Act (HMDA) reportable loan data for 1999, 2000 and 2001 was analyzed to determine the institution's performance for this criterion and the two subsequent lending criteria. HMDA reportable loans include all home purchase mortgages, refinances of home purchases and home improvement loans.

During the period reviewed the bank granted 232 mortgage loans totaling \$22.0 million. Lending activity inside the assessment area represented 79.7 percent (by number) and 75.9 percent (by dollar) of the total mortgage loans granted. Table 3 below details the bank's lending inside and outside its assessment area.

Distribution of Home Mortgage Loans Inside and Outside the Assessment Area								
Year	Inside				Outside			
	Number of Loans		Dollar in Loans (000s)		Number of Loans		Dollars in Loans (000s)	
	#	%	\$	%	#	%	\$	%
1999	97	79.5	9,153	75.8	25	20.5	2,922	24.2
2000	46	79.3	3,958	76.9	12	20.7	1,191	23.1
2001*	42	80.8	3,623	75.4	10	19.2	1,185	24.6
Total	185	79.7	16,734	75.9	47	20.3	5,298	24.1

Table 3: Source: HMDA LAR, CRA Wiz. *Year-to date through July 31, 2001.

Colonial Co-operative Bank's lending inside its assessment area demonstrates a consistent level for each of the three years shown. Overall, the results indicate that a substantial majority of the residential loans granted are situated inside the assessment area. Mortgage loans granted within the Town of Winchendon represented 50.3 percent (by number) and 46.0 percent (by dollars) of the total loans granted inside the assessment area. Furthermore, mortgage loans granted in the City of Gardner represented 34.6 percent (by number) and 38.1 percent (by dollars) of loans granted within the bank's assessment area.

In conclusion, Colonial Co-operative Bank's residential lending activity inside its assessment area is strong.

3. DISTRIBUTION OF CREDIT AMONG BORROWERS OF DIFFERENT INCOME LEVELS

The third performance criterion evaluates the extent to which the institution lends to borrowers of different income levels inside the assessment area. The bank's performance under this criterion is considered to be reasonable and to meet the standards for satisfactory performance. Residential mortgages were evaluated for years 1999 and 2000 and the first 7 months (year-to-date) of 2001 to determine the institution's performance. Borrower incomes were compared to the median Family Household Income (FHI) for the MSA in which the property is located to determine the individual borrower's income level. The CRA regulation categorizes borrower income levels as low-income (less than 50% of area median income), moderate-income (50 - 79% of area median income), middle income (80 - 119% of area median FHI) or upper-income (120% or more of area median FHI).

The Fitchburg-Leominster, MA MSA median Family Household Income (FHI) was \$50,700 and \$53,100 for 1999 and 2000, respectively. The median FHI for 2001 is \$57,200.

Table 4 below details the bank's mortgage lending activity by borrower income levels and compares the bank's performance to both the HMDA aggregate lender data and to the distribution of family households.

Distribution of HMDA Loans by Borrower Income								
Median Family Income Level	Family Households % of #)	1999 Aggregate Lending Data	1999		2000		2001	
		% of #'s	#	%	#	%	#	%
Low	21.5	5.9	12	12.4	4	8.7	2	4.8
Moderate	19.4	22.2	11	11.3	9	19.6	10	23.8
Middle	27.4	28.4	37	38.1	11	23.9	12	28.6
Upper	31.7	24.1	30	31.0	21	45.6	17	40.4
NA	0.0	19.4	7	7.2	1	2.2	1	2.4
Total	100.0	100.0	97	100.0	46	100.0	42	100.0

Table 4: Source: U.S. Census, HMDA LAR, HMDA Aggregate Data

The aggregate lenders' distribution mirrors the demographic distribution of family households within the assessment area with the exception of the lending distribution to low-income borrowers. Based on 1990 U.S. Census data, 35.6 percent of the low-income family households (within the bank's assessment area) reside below the poverty level. This explains the lower level of loans granted to this income group.

The bank's 1999 lending distribution to low-income borrowers is well above the aggregate lenders' distribution. In contrast, the bank's loan distribution to moderate-income borrowers falls below the aggregate lenders' distribution to this income group. The bank's lending to middle-income borrowers also exceeds aggregate. Lastly, Colonial Co-operative Bank's lending to upper-income borrowers surpasses the aggregate lenders' distribution. It should be noted that the aggregate displays a high percentage of N/A 's within the income distribution, possibly distorting the comparison.

In regards to the dollar volume of loans, the variance between the bank's 1999 lending distribution and the aggregate lenders' data largely follows the same pattern as the number of loans.

The bank's distribution of lending by borrower income levels in 2000 and year-to-date 2001 corresponds reasonably to the distribution of the assessment area's family households, particularly for moderate-income and middle-income borrowers. The bank's distribution of lending to low-income borrowers declined in 2000 and 2001 however, remained reasonable given the level of poverty among this income group.

In summary, Colonial Co-operative Bank's residential lending demonstrates a solid distribution of loans granted to low-income and moderate-income borrowers. The borrower income distribution, taken as a whole compares favorably to both the assessment area's family household demographics and to the aggregate HMDA lenders' performance. Colonial Co-operative Bank therefore meets the standards for satisfactory performance for this lending criterion.

4. GEOGRAPHIC DISTRIBUTION OF LOANS

The fourth performance criterion evaluates the institution's record of addressing the credit needs of the assessment area based on the geographic distribution of loans. The bank's performance under this criterion is reasonable and consequently, meets the standards for satisfactory performance. Census tracts/geographies are defined as either low, moderate, middle, or upper-income. Census tract income levels are based upon the income level of the census tract in comparison to that of the MSA as a whole, and are further based upon 1990 Census data.

Table 5 provides the bank's geographic distribution of loans among all census tract income levels. In addition, the table compares the bank's distribution of loans to that of all other HMDA reporting lenders and to the distribution of owner-occupied units within the assessment area.

Distribution of Residential Loans by Census Tract Income Category								
Census Tract Income Level	Owner-Occupied Housing Units (%)	1999 Aggregate Lenders' Data	1999		2000		2001	
		% of #	#	%	#	%	#	%
Moderate	11.8	10.3	7	7.2	6	13.0	4	9.5
Middle	88.2	89.7	90	92.8	40	87.0	38	90.5
Total	100.0	100.0	97	100.0	46	100.0	42	100.0

Table 5: Source: U.S. Census, HMDA LAR, HMDA Aggregate Data

A comparison with the aggregate HMDA lender data indicates the level of lending opportunities that exist within the respective census tracts. The bank's lending within the moderate-income census tracts in 1999 (7.2% by number) corresponds reasonably, yet is somewhat below the aggregate lenders' distribution of loans (10.3% by number) within the moderate-income tracts. The bank's distribution of loans within the middle-income tracts (92.8% by number) corresponds reasonably, yet is somewhat above the aggregate distribution of loans (89.7% by number) within the middle-income tracts.

Overall, for the three years shown in the above table, Colonial Co-operative Bank's geographic distribution of loans corresponds favorably to the distribution of owner-occupied dwellings among the census tracts comprising the assessment area; particularly within the moderate-income geographies. In conclusion, Colonial Co-operative Bank's performance is reasonable and meets the standards for a satisfactory rating given the assessment area's housing demographics and HMDA aggregate lenders' performance.

5. REVIEW OF COMPLAINTS AND FAIR LENDING POLICIES AND PRACTICES

Colonial Co-operative Bank received no CRA related complaints in the period under review. The bank's loan policy prohibits illegal discrimination in the conduct of all of its lending activities. The bank recently conducted a complete review of its loan policy and added an expanded fair lending compliance section, which addresses issues of marketing, outreach, training, product development, second review and management and staff's fair lending responsibilities. Overall, Colonial Co-operative Bank has a satisfactory record of implementing fair lending policies and practices.

Colonial Co-operative Bank works to consistently assist all loan applicants throughout the application and loan underwriting process. The bank offers a pre-qualification service to assist potential first time homebuyers. Furthermore, the bank offers a reduced down payment mortgage to first time buyers, allowing for a Loan to Value (LTV) of up to 89 percent with no PMI (Private Mortgage Insurance) requirement. The bank is in the process of training an increased number of staff to originate and process loan applications, enhancing its lending service to all borrowers. The bank has expanded its staff training regarding fair lending issues and other related lending issues. A new personal line of credit (for \$500 or less) will be offered in the near future. Colonial Co-operative Bank recently expanded its advertising efforts primarily through the use of print media within the communities it serves. The institution's Security Committee conducts a second review of all denied mortgage loans.

MINORITY APPLICATION FLOW

The number of applications received from minority applicants was reviewed. For the years 1999 and 2000 combined, the bank received a total of 3 mortgage applications from various minority groups, representing 2.0 percent of all residential loan applications received from within the bank's assessment area. The HMDA aggregate lenders in 1999 attracted 68 minority applicants, representing 2.9 percent of all the residential applications received. In the same year, Colonial Co-operative Bank's minority applicants also represented 2.9 percent of all applicants. The following table provides further details.

MINORITY APPLICATION FLOW*								
RACE	AGGREGATE DATA 1999		BANK 1999		BANK 2000		BANK TOTAL	
	#	%	#	%	#	%	#	%
Native American	3	0.1	1	1.0	0	0.0	1	0.7
Asian	9	0.4	0	0.0	0	0.0	0	0.0
Black	22	0.9	0	0.0	0	0.0	0	0.0
Hispanic	25	1.1	0	0.0	0	0.0	0	0.0
Other	9	0.4	2	1.9	0	0.0	2	1.3
Total Minority	68	2.9	3	2.9	0	0.0	3	2.0
White	1,540	65.7	91	88.4	43	89.6	134	88.7
NA	737	31.4	9	8.7	5	10.4	14	9.3
Total	2,345	100.0	103	100.0	48	100.0	151	100.0

Table 6: Source: HMDA-LAR, CRA Wiz .

In addition, the institution's minority application flow was compared to the assessment area's racial composition. According to the 1990 U.S. Census, the assessment area population was 35,368 residents of which 1,431 individuals or 4.0 percent were members of a racial minority. The assessment area's minority population is Native American (0.1%), Asian (0.9%), Black (1.2%), Hispanic (1.9%) and Other (0.0%).

While the bank's minority application flow looks comparable to the aggregate in 1999, at least in terms of percentage, the actual number of loans from minorities both in that year and in the following years is quite low.

CONCLUSION

Colonial Co-operative Bank's record of implementing and developing fair lending policies and practices is rated "satisfactory". This rating is based on credit products designed to meet the assessment area credit needs, efforts to review all denied mortgage loan applications to ensure fairness in the underwriting and loan application process, regular training programs for staff regarding compliance with fair lending laws and efforts to routinely assist/counsel loan applicants. The bank's minority application flow, however, is low in absolute terms.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

COLONIAL CO-OPERATIVE BANK

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **AUGUST 20, 2001** has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

_____	_____
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A majority of the Board of Directors/Trustees

Dated at _____ this _____ day of _____ 20 _____

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that assessment area shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee, which does not exceed the cost of reproduction, and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.